
RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

CONTROLLING SHAREHOLDERS

Immediately after completion of the Capitalization Issue and the Global Offering (without taking into account the Shares that may be issued pursuant to the exercise of the Over-allotment Option or any options which may be granted or the Share Option Scheme), Mr. Yu Jianqiu, our Chairman, will be interested in approximately 45.68% of the issued share capital of our Company through his interest in the entire issued share capital in Epoch Keen. Therefore, Mr. Yu and Epoch Keen will be our Controlling Shareholders after the Listing.

Save and except for their interests in our Company and its subsidiaries, neither of our Controlling Shareholders nor any of their associates had interests in any other companies as at the Latest Practicable Date which may, directly or indirectly, compete with our business.

INFORMATION ON THE GUSHAN GROUP

Mr. Yu Jianqiu, our Chairman, owns 100% of the issued share capital of Gushan. Gushan was founded by Mr. Yu in May 2006. On August 17, 2010, Gushan became the sole shareholder of Engen. As part of the Corporate Reorganization, Gushan distributed all of its shareholding interest in Engen by way of dividend in specie to Trillion Energy, a company wholly-owned by Mr. Yu on March 19, 2013. Trillion Energy transferred all of its shareholding interest in Engen to Epoch Keen on March 19, 2013. For further details on the corporate reorganization of our Group, please refer to the section headed “History, Reorganization and Corporate Structure – Corporate Reorganization”.

Gushan’s American depositary shares (“ADSs”) were registered under the Securities Exchange Act of 1934 and were listed on the New York Stock Exchange (“NYSE”) in December 2007, at an initial public offering price of US\$9.60 per Gushan ADS, each representing two Gushan shares at that time. On October 15, 2012, the shareholders of Gushan approved a merger of Gushan with Trillion Energy, a company indirectly wholly-owned by Mr. Yu (the “Merger”). In the Merger, Trillion Energy offered to acquire all the issued shares in the capital of Gushan at an offer price of US\$0.165 per Gushan share. Subsequent to the Merger, which became effective on October 17, 2012, Gushan ceased to be a publicly traded company and became a company indirectly wholly-owned by Mr. Yu. The total amount paid by Trillion Energy to the shareholders of Gushan for the Merger was approximately US\$21.03 million, representing US\$0.165 per Gushan share. On October 29, 2012, Gushan terminated the registration of the American depositary shares under the Securities Exchange Act of 1934 with the U.S. Securities and Exchange Commission.

According to the Gushan’s public filings with US SEC in relation to the Merger, the principal reasons, among others, for the Merger were:

- The board of directors of Gushan, with knowledge of Gushan’s business, financial condition, results of operations, prospects and competitive position, believed that the Merger was more favorable to the shareholders and holders of ADSs than any other alternative reasonably available to the Gushan and its shareholders and ADS holders, including the alternative of remaining a publicly-traded company;

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- Global economic conditions since the second half of 2008 had resulted in reduced liquidity, greater volatility, widening of credit spreads, lack of price transparency in credit markets, a reduction in available financing and lack of market confidence, and that the uncertainty and volatility of credit and capital markets and the overall slowdown in the PRC economy might have an adverse effect on the business and financial statements of the Company; and
- Trading volume of Gushan's ADSs on the NYSE was limited.

During the time when Gushan's ADSs were listed on the NYSE, there were two instances where Gushan did not satisfy the continued listing requirements of the NYSE:

- (1) On May 27, 2010, Gushan was notified by the NYSE that its ADSs, each represented two Gushan shares, had been trading below the minimum average closing price of US\$1.00 over a consecutive 30-trading day period. Gushan was required to bring the average security price back above US\$1.00 within six months. Gushan announced a share repurchase program on October 7, 2010 and a change of ratio of Gushan's ADSs from one ADS representing two Gushan shares to one ADS representing ten Gushan Shares, which became effective on November 12, 2010. The instance was rectified by the change of ratio restored the 30-day average of the trading price of Gushan's ADS to above US\$1.00.
- (2) On January 9, 2012, Gushan received a letter from the NYSE that it was near the regulatory minimum thresholds for market capitalization and stockholders' equity and average closing price for listed securities, but no breach was alleged in this letter. Subsequently, on May 1, 2012, the NYSE notified Gushan that it had fallen below the minimum requirement of maintaining a total market capitalization of not less than US\$50 million over a consecutive 30 trading-day period and stockholders' equity of not less than US\$50 million. Gushan was required to submit a plan in 90 days to rectify the non-conformity within 18 months. The Merger was subsequently completed on October 29, 2012 and therefore no further action in relation to this incident was required.

The Gushan Group was principally engaged in the production of biodiesel and its major by-products, including glycerine, plant asphalt, erucic acid and erucic amide. According to Gushan's public filings with the US SEC, in 2006, Gushan was the largest biodiesel producer in the PRC as measured by annual production capacity in 2006. As of December 1, 2007, Gushan operated five production facilities in Beijing, Shanghai, Sichuan, Hebei and Fujian in the PRC. The annual biodiesel production capacity of Gushan increased from 190,000 tons at the end 2007 to 290,000 tons at the end of 2008. However, sales of biodiesel products of Gushan have declined significantly since 2009 for several reasons, including raw material shortages, increases in raw material costs, a decline in the prices of and demand for biodiesel, and higher consumption tax rates on refined oil products. The number of operating biodiesel production facilities of Gushan decreased from five as of December 2007 to one at the end of 2011.

The production of Gushan's biodiesel business is currently suspended for the same reasons as set forth above. Gushan is currently evaluating the prospects of the biodiesel business, and is studying factors such as the market prices of raw materials and the demand for biodiesel products, Gushan may consider reviving the business if Gushan is satisfied with its future prospects.

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The following table sets forth the turnover, gross profit and net profit of Gushan for the five years ended December 31, 2011, as extracted from the audited financial statements in accordance with the US GAAP in Gushan's public filings with the U.S. Securities and Exchange Commission:

	Years ended December 31,				
	2007	2008	2009	2010	2011
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Turnover	1,008,056	1,495,614	628,186	408,498	1,449,734
Gross profit (loss)	439,083	533,008	(138,500)	(73,359)	44,808
Net profit (loss)	230,273	269,010	(283,509)	(1,106,265)	(736,623)

While Gushan's ADSs were listed on the NYSE, it did not receive any VAT refunds for its biodiesel business and the amount of government grants provided to Gushan was not material to its revenue. For the years ended December 31, 2007, 2008, 2009, 2010 and 2011, government grants received by Gushan amounted to approximately RMB2.7 million, RMB0.1 million, RMB0.2 million, RMB4.0 million and RMB11.3 million, respectively.

As the biodiesel business of Gushan is unrelated to our core business, it was excluded from the Group during the Corporate Reorganization to refine and focus our business to manufacturing of recycled copper products and the sale of power distribution and communications cables. As at the Latest Practicable Date, the Gushan Group did not have any interest in a business which competes or is likely to compete, either directly or indirectly, with our business. Upon inquiries of directors of Gushan, the Directors are not aware of any outstanding class actions against any directors of Gushan as at the Latest Practicable Date.

NON-COMPETITION UNDERTAKING

On February 6, 2014, each of our Controlling Shareholders, Epoch Keen and Mr. Yu (each a "Covenantor" and collectively, "Covenantors") and the Company entered into a Deed of Non-competition (the "Deed of Non-competition") in favor of our Company pursuant to which the Covenantors have undertaken to our Company (for itself and as trustee for the benefit of each of the members of the Group from time to time) that the Covenantors will not, and will procure that their respective associates (except for any members of our Group) will not, during the restricted period set out below, amongst others, either on its/their own account or in conjunction with or on behalf of or through any person, company, firm or organization, directly or indirectly, be interested or engaged in or assist others to be interested in or engaged (in each case whether as a shareholder, agent, partner, employee or otherwise and whether for profit, reward or otherwise) in any business which is or may be in competition with the businesses of the Company as described in the prospectus in the markets in which the Company currently operates.

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Such non-compete undertaking does not apply to the Covenantors or their respective associates in respect of:

- (a) their interests in the shares of any member of our Group; or
- (b) their interests in the shares of a company other than our Group which shares are listed on the Stock Exchange or a recognized stock exchange provided that the total number of the shares held by each of the Covenantors (including their respective associates) does not exceed 5% of the issued shares or securities of that class of the company in question and it/he and its/his associates, whether acting individually or jointly, are not entitled to appoint a majority of the board of directors of that company.

The “restricted period” stated in the Deed of Non-competition refers to the period commencing on the Listing Date and expiring on the earliest of (i) the date on which our Shares cease to be listed and traded on the Stock Exchange; (ii) in relation to each of the Covenantors, the date on which it/he and its/his associates cease to hold any of our Shares; and (iii) the date on which the Covenantors (including their respective associates), jointly or severally, cease to be entitled to exercise or control the exercise of 30% or more of the voting power at general meetings of our Company.

The Deed of Non-Competition also provides that:

- our independent non-executive Directors shall review, at least on an annual basis, the compliance with the Deed of Non-competition by our Controlling Shareholders;
- each of our Controlling Shareholders has undertaken to us that it/he will, and will procure its/his associates to provide all information reasonable necessary for the annual review by the independent non-executive Directors for the enforcement of the Deed of Non-competition;
- we will disclose the review by the independent non-executive Directors on the compliance with the Deed of Non-competition in our annual report or by way of announcement to the public in compliance with the requirements of the Listing Rules; and
- each of our Controlling Shareholders will make an annual declaration in our annual report on the compliance with the Deed of Non-competition in accordance with the principle of voluntary disclosure in the corporate governance report.

DIRECTORS

Each of the Directors confirms that he or she does not have any interest in business competing with our Group.

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INDEPENDENCE FROM OUR CONTROLLING SHAREHOLDERS

Having considered the matters described above and the following factors, we believe that we are capable of carrying on our business independently of our Controlling Shareholders and their associates after the Global Offering.

Management Independence

Our Board comprises five executive Directors and three independent non-executive Directors.

Although Mr. Yu, our Chairman, chief executive officer and one of our executive Directors, is also our ultimate Controlling Shareholder, each of our Directors, including Mr. Yu, is aware of his or her fiduciary duties as a Director of our Company. These fiduciary duties require, among other things, that a Director acts for the benefit and in the best interests of our Company and does not allow any conflict between his or her duties as a Director and his or her personal interest. In the event that there is a potential conflict of interest arising out of any transaction to be entered into between our Group and our Directors or their respective associates, the interested Director(s) shall abstain from voting at the relevant board meetings of our Company in respect of such transactions and shall not be counted in the quorum.

Having considered the above factors, our Directors are satisfied that they are able to perform their roles in our Company independently, and our Directors are of the view that they are capable of managing our business independently from the Controlling Shareholders after the Global Offering.

Operational Independence

We have established our own organizational structure made up of individual departments, each with specific areas of responsibilities. We have independent access to sources of supplies or raw materials for production as well as customers. We are the licensee/owner of the brands/trademarks. We own our manufacturing facilities and do not lease any property from our Controlling Shareholders. We have also established a set of internal control procedures to facilitate the effective operation of our business.

Financial Independence

We have our own accounting system, accounting and finance department, and we make financial decisions according to our own business needs. As of the Latest Practicable Date, we had an outstanding amount of approximately RMB112.6 million due to Mr. Yu, our Controlling Shareholder and his associates, and a RMB40.0 million bank loan secured by the property, plant and equipment of a private company controlled by Mr. Yu. The outstanding amount mainly consisted of loans and advances extended by Mr. Yu and his associates to us to fund our working capital, the listing expenses in preparation for the Global Offering and operating expenses of our Hong Kong office. On October 16, 2013, Mr. Yu exercised the Yu Options in full. The subscription price payable upon the exercise was approximately RMB64.0 million, which was offset against the same amount due by us to Mr. Yu. In addition, we will repay the RMB40.0 million bank loan prior to Listing. Our Directors have also

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confirmed that we are in the process of obtaining the bridge loan for the purpose of repaying in full the outstanding amount due to Mr. Yu and his associates and such outstanding advances will be repaid or waived in full prior to Listing. The loans and advances from Mr. Yu and his associates during the Track Record Period provided a more economical source of funding for us than bank borrowings and were in the commercial interests of us and our shareholders. A significant portion of such advances was utilized to fund the expenses in relation to our various acquisition during the Track Record Period. If such loans were not available, we would have financed our needs with alternative financing from financial institutions or capital investments. In addition, we have successfully obtained new bank loans and other borrowings with a principal amount of RMB286.0 million in the nine months ended September 30, 2013, and an additional RMB192.9 million in the three months ended December 31, 2013, without any guarantees or collateral provided by related parties, which we believe demonstrates that we are able to raise funds on a stand-alone basis without any credit support from our related parties. Based on the forgoing, we believe we will be financially independent from our Controlling Shareholders or their associates after completion of the Global Offering.